

MANAGEMENT MEET UPDATE ✓

Thermax Ltd (THERMA)

Current Price
Rs 455

UNRATED

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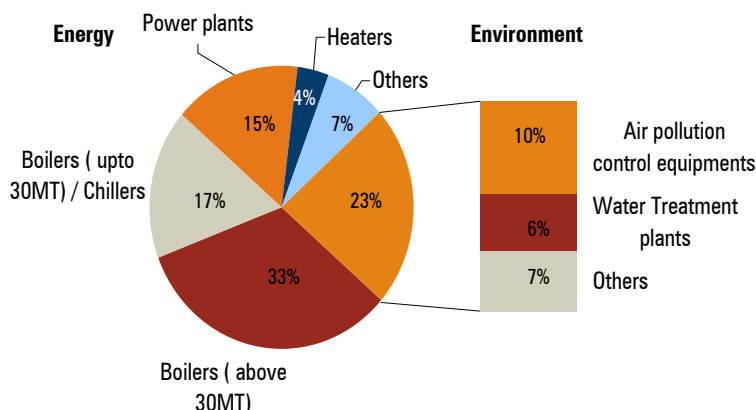
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Thermax, an engineering company, is engaged in providing sustainable solutions in two major segments 1) energy and 2) environment. The company offers total integrated solutions in the areas of heating, cooling, power, water & waste management, air pollution controls and chemicals. Thermax's international operations are spread over South East Asia, the Middle East, Africa, Russia, UK and US. The company is debt-free with high proportion of cash accruals and marketable securities.

Business model

The company operates in two major segments – 1) energy and 2) environment. The energy business segment, which contributes nearly 77% to its total revenues, is sub-divided into boilers and heaters, absorption chillers, heating and the power plant (co-generation) divisions. The environment business, contributing the balance 23%, is sub-divided into water and waste solutions, air pollution & purification and chemicals division. The detailed break-up of its revenue mix is mentioned below.

Exhibit 1: Segmental break-up of revenues (FY09)



The company derives a majority of its revenues from sale of small and mid-size boilers with revenues of over Rs 1,600 crore coming from the sub-segment of the energy business division

Source: Company, ICICIdirect.com Research

Going forward

FY09 proved to be a tough year for the company due to the global slowdown as the company has a high exposure to industrial capex (over 95%) with high participation from private players. The company currently has a total order book position of Rs 3,230 crore. Thermax expects order inflow growth of ~15% YoY. Though the order book position does not offer long-term earnings visibility, the business areas in which the company operates has a good potential to garner new orders under its various segments. At CMP of Rs 454, the stock is trading at 13.7x its FY09 EV/EBITDA and 18.8x its FY09 EPS.

Exhibit 2: Historical financial data

Financials	Rs. Crore		
	FY07	FY08	FY09
Net sales	2137.0	3157.0	3211.0
EBITDA	243.0	362.0	361.0
PAT	188.0	281.0	287.0
EPS (Rs. Per share)	15.8	23.6	24.1
EV/EBITDA	20.4	13.7	13.8
P/E	28.9	19.4	18.9
P/B	9.3	7.4	5.6

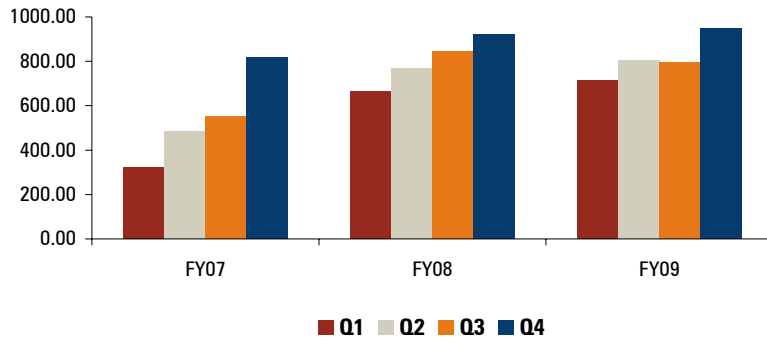
International business contributes ~30% to its total revenue

Source: Company, ICICIdirect.com Research

Nature of the business

Thermax's business is cyclical in nature, with sales in the quarter ending June contributing the least (~19-21%) and sales in the quarter ending March contributing the highest (~30-31%) to its annual sales. We can attribute this to the nature of the business wherein most annual capital expenditure planning commences in March and is finalised by May, making June quarter sales the lowest. With an average capital cycle of about nine months, March witnesses peak sales.

Exhibit 3: Quarterly trends in sales



Source: Company, ICICIdirect.com Research

Energy business

Boilers/heaters

The company manufactures low and mid-size boilers. Based on its capacity this segment is further divided into two segments 1) boiler capacity up to 30 MT and 2) boiler capacity above 30 MT. The company faces intense competition in the sub 5 MT boiler segment due to the presence of a large unorganised sector, considering the low technical expertise involved. As a result of this Thermax has altered its product mix to include a higher proportion of medium (5-30 MT) and large segment (more than 30 MT) boilers in which competition is comparatively less. The company has also forayed into the utility range of boilers (capacity above 300 MW) in the sub-critical segment. Thermax is expecting flow of orders in this segment in FY11.

Absorption chillers

This division provides vapour absorption (VAM) for refrigeration purposes. The cooling business has sustained its growth and performance during FY09 with exports contributing to 41% of the income. For better reach and visibility, the company has entered into an agreement with an American firm for manufacturing absorption chillers. Also, the division is already working with a German company to promote inlet air cooling projects to enhance power generation by improving turbine efficiency.

Power plants

This division provides captive power and co-generation systems on an engineering procurement contract (EPC) basis. Other players in this segment include ABB Ltd, Alstom and Triveni Ltd. Key user industries are cement, fertilisers, petrochemicals, sugar, pharma, textile, etc. In FY09, the company commissioned eight plants comprising 10 units totalling 198 MW. The plants commissioned also included small power plants catering to less than 12 MW requirements. The O&M segment of this business has also increased its O&M capability to 13 plants comprising 19 units totalling 435 MW as on March 31, 2009.

Environment

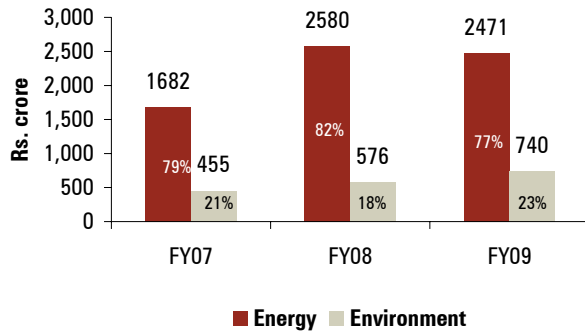
Air pollution control equipment

This division supplies air pollution control products, engineered air pollution control systems and air purification systems to several industries like power, chemicals, fertilisers, petro chemicals and textiles.

Water treatment plants

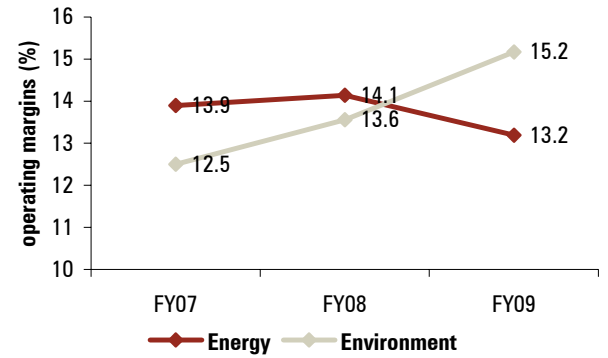
This division is further divided into three verticals namely 1) industrial 2) municipal and 3) standard products. In FY09, the industrial and standard products recorded subdued growth while the municipal projects business performed well with good orders for sewage treatment plants from several municipalities.

Exhibit 4: Segmental revenue break-up



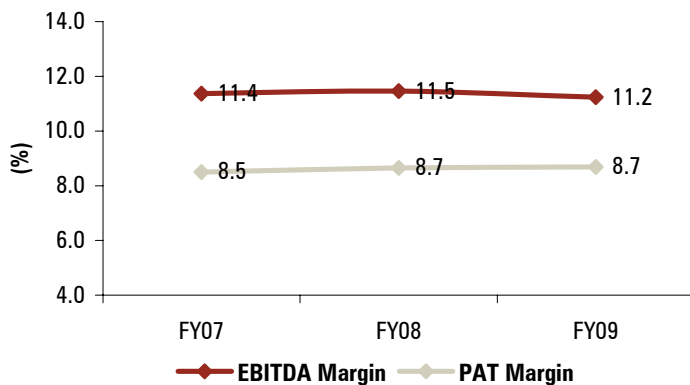
Source: Company, ICICIdirect.com Research

Exhibit 5: Segmental operating margins



Source: Company, ICICIdirect.com Research

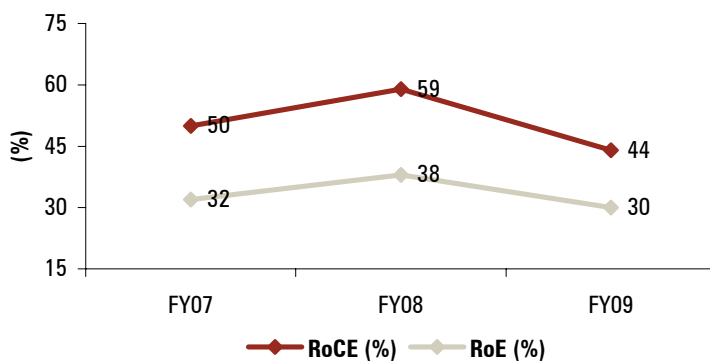
Exhibit 6: Combined EBITDA & PAT margin



Despite subdued revenue growth, the company has been able to maintain its margin at its previous levels

Source: Company, ICICIdirect.com Research

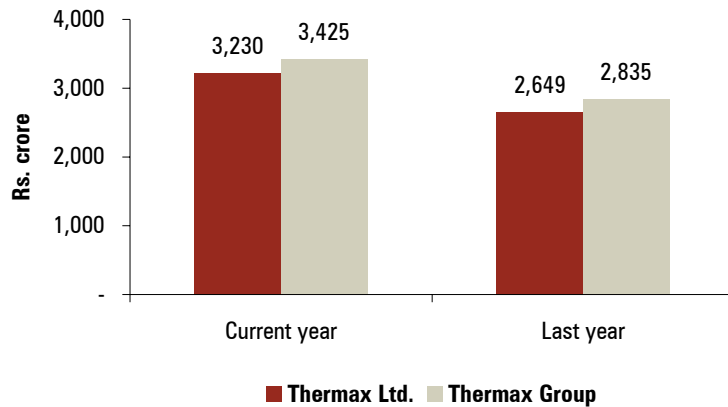
Exhibit 7: RoE & RoCE



Source: Company, ICICIdirect.com Research

Current order book position

Exhibit 8: Order backlog



Domestic market constitutes 81% of the total order book position

Source: Company, ICICIdirect.com Research

Latest developments

- Recently, the company has formed a 51:49 JV with the US-based SPX Corporation. Thermax's initial investment in the JV stands at Rs 25 crore. The company will manufacture electrostatic precipitators and rotary heat exchangers as part of this joint venture. The former are pollution control equipment, which are needed for upcoming power plants in India. The latter are specialised, high-value products that would improve the efficiency of power plants.

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Performer (P): Between 10% and 20%;

Hold (H): $\pm 10\%$ return;

Underperformer (U): -10% or more;

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